



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Adopt Resolution Authorizing Execution of an Amendment to an Existing Interest Rate Swap Agreement between the City and Salomon Smith Barney

MEETING DATE: February 21, 2001

PREPARED BY: Electric Utility Director

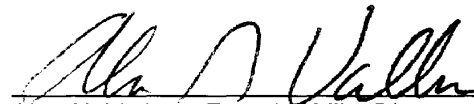
RECOMMENDED ACTION: That the City Council authorize execution of an amendment to an existing Interest Rate Swap Agreement between the City and Salomon Smith Barney.

BACKGROUND INFORMATION: In November 1999, the City entered into an Interest Rate Swap Agreement with Salomon Smith Barney. The transaction has been performing better than originally expected and the current interest rate environment has created an additional opportunity to further benefit the City.

An existing feature of the agreement allows the City to terminate the agreement and receive a cash payment. Salomon Smith Barney has made a proposal to the City whereby the agreement would be terminated for a period of approximately three (3) years.

At the end of the three (3) year termination period, the agreement would continue as originally anticipated. In exchange for agreeing to terminate, the City would receive a cash payment. The exact amount of the payment will depend on the market conditions on the date of execution. Recent market levels indicate a value of \$1,200,000 to \$1,400,000. City staff is requesting authority to execute this transaction on the basis that the amount to be received greatly exceeds our initial expectations related to the original transaction.

FUNDING: None


Alan N. Vallow, Electric Utility Director

PREPARED BY:

ANV/ke

C: City Attorney

APPROVED:


H. Dixon Flynn - City Manager



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Adopt a Resolution Authorizing Execution of a New Interest Rate Swap Agreement between the City and Salomon Smith Barney

MEETING DATE: February 21, 2001

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: That the City Council authorize execution of a new Interest Rate Swap Agreement between the City and Salomon Smith Barney.

BACKGROUND INFORMATION: The City currently has in place an agreement with Salomon Smith Barney whereby the City receives a periodic cash payment based on the difference between a set fixed interest rate and a variable index rate (BMA). Currently the interest rate environment is low by historic standards and the existing transaction is performing very well.

In order to protect the City from future interest rate increases, which would tend to lower the value of the existing transaction, Salomon Smith Barney has proposed a new transaction, which works opposite of the existing transaction if interest rates were to rise over time.

The proposed transaction is structurally similar to the existing transaction. In the current proposal, the transaction is based on the difference between London Interbank Overnight Rate (LIBOR) and BMA. As interest rates rise, this creates a cash reduction to the City in the existing transaction.

With the new agreement, as interest rates rise, the difference between LIBOR and BMA increases creating increasing cash flows to the City. The intent of the new agreement is to offset cashflow reductions, which would occur in our existing transaction if interest rates rise in the future.

The City's Financial Advisor has been involved with the analysis of this transaction along with City staff. It is the staff's opinion that this transaction meets the City's long-term financial risk management objectives to limit the City's financial risk exposure.

It is requested that the City Manager and Electric Utility Director be authorized to enter into this transaction with Salomon Smith Barney.

FUNDING: None

Alan N. Vallow, Electric Utility Director

ANV/ke

cc: City Attorney

APPROVED:

H. Dixon Flynn - City Manager

Confidential

Presentation to:

City of Lodi

Regarding:

ENHANCING VARIABLE RATE DEBT

February 21, 2001

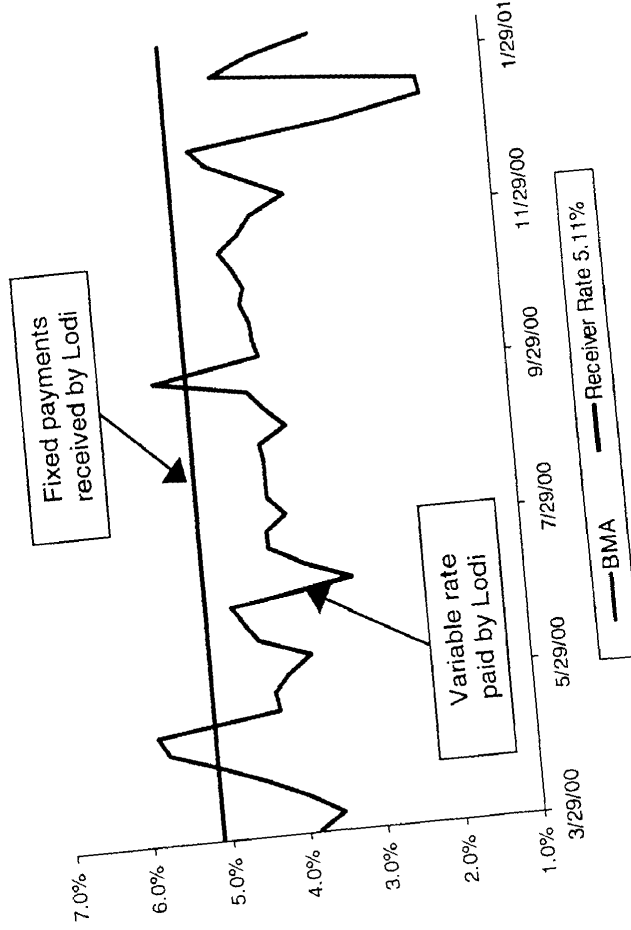
Table of Contents

- 1 SUMMARY OF EXISTING SWAP
- 2 BASIS SWAP DISCUSSION
- 3 SWAP REVERSAL/TERMINATION ANALYSIS
- 4 SWAP REVERSAL WITH FORWARD BASIS SWAP

1 SUMMARY OF EXISTING SWAP

Confidential

Since March 29, 2000, Lodi has Reduced Interest Cost by \$342,584



Notional	\$42,000,000
Terminates	09/29/14
Receive Fixed ¹	5.11%
Pay BMA ²	4.15%
Receivable	\$1,877,925
Payable	\$1,535,341
Net to Lodi ³	\$342,584

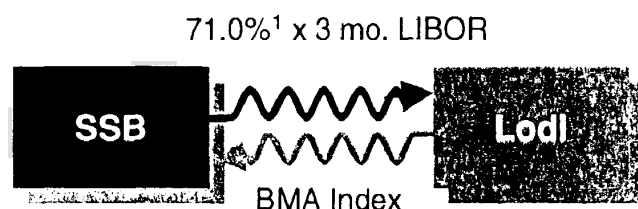
SALOMON SMITH BARNEY
A member of Citigroup

¹ Lodi is receiving the fixed rate of 5.11%
² Lodi is paying BMA, which has averaged 4.15217% since execution
³ Includes payments and accruals from execution through February 14th

2 BASIS SWAP DISCUSSION

Reducing Exposure to Rising Variable Rates: Basis Swaps

- Under a basis swap, Lodi receives a short-term **taxable** rate and pays an initially lower short-term **tax-exempt** rate



- Basis swap provides Lodi with the following:
 - Immediate annual cash flow of \$224,000 per \$42.0 million notional amount ⁵
 - Increase in cash receipts when short term rates rise, assuming the historical BMA/LIBOR relationship
- Risk: Reduction in marginal tax rates will cause BMA to increase relative to LIBOR, thereby reducing or eliminating Lodi's positive cash flow

LIBOR	BMA ²	Fixed to Floating Cashflow ³	Basis Swap Cashflow ⁴	Net Cashflow ⁵
2.39%	1.48%	1,523	99	1,622
3.39%	2.11%	1,262	141	1,403
4.39%	2.73%	1,001	182	1,183
5.39%	3.35%	740	224	964
6.39%	3.97%	480	265	745
7.39%	4.59%	219	307	526
8.39%	5.21%	-42	348	306

Dollar amounts in '000s per \$42 million par / notional
For illustration purposes only

¹ Current ratio for a basis swap with a 13 year average life, final maturity of 9/29/14

² Assumes BMA=62.1% of LIBOR, the five year ratio average. Adjusted for daycount convention the five year average is BMA = 61.3% of LIBOR.

³ Lodi receives fixed receiver rate of 5.11%, pays BMA

⁴ Lodi receives 71.0% of 3 month LIBOR (adjusted for Actual / 360) and pays BMA (BMA=62.1% of 3 mo. LIBOR, the 5 year ratio average)

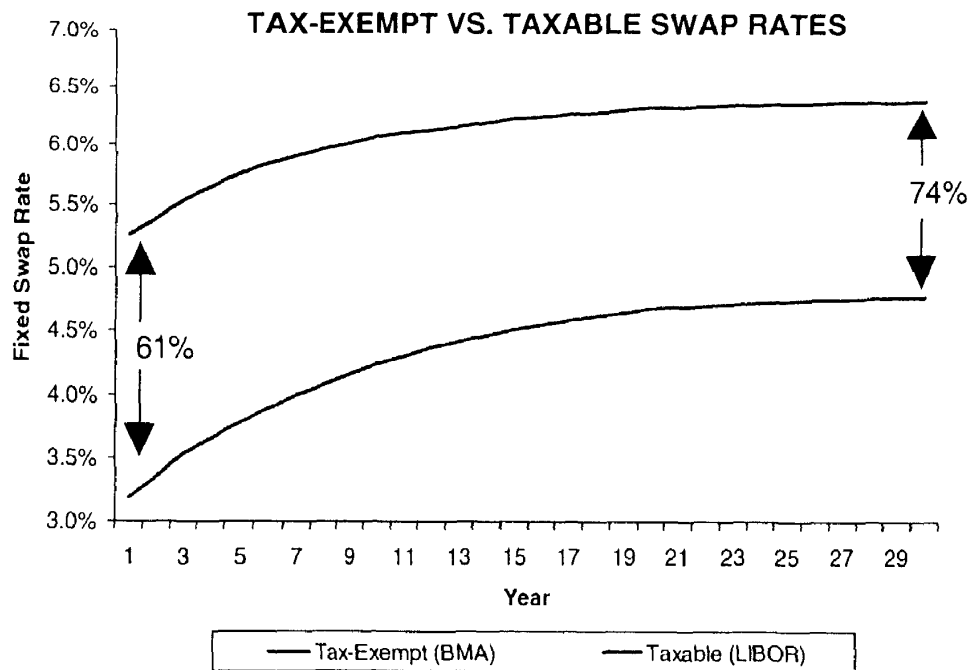
⁵ Includes adjustment for LIBOR Actual/360 day count convention, and BMA= 62.1% LIBOR, the 5 year ratio average.

For illustration purposes only; actual results will depend on future market conditions

Why Do Basis Swaps Provide Savings Today?

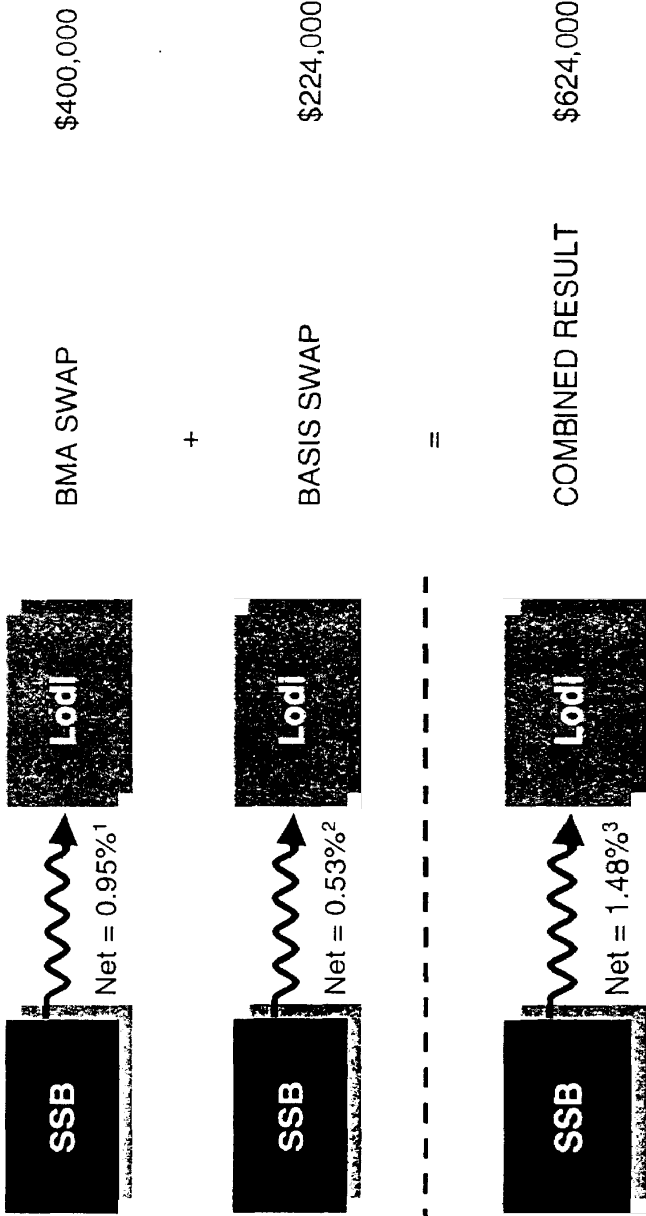
- Theoretically, investors should demand that tax-exempt yields at least equal the taxable yields after tax.
- If the marginal tax rate is 40%, tax exempt yields should at least equal 60% of taxable yields
- This relationship essentially holds in the more efficient short end of the tax-exempt yield curve
- Long term rates reflect less liquid, more varied credits as well as compensation to investors for tax risk. This results in a much higher tax exempt/taxable yield ratio

Tax risk is one reason for a steeper tax exempt yield curve



Basis Swap Enhances Fixed-to-Floating Swap

Adding a basis swap to its fixed-to-floating swap will provide Lodi with additional annual savings of 53 bps³



¹ Lodi is receiving fixed receiver rate of 5.11%, paying BMA (assumes: 4.15217%, average BMA since execution)
² Based upon BMA and LIBOR swap markets as of 2/12/01, Assumes BMA=62.1% of LIBOR, the five year ratio average. Adjusted for daycount convention.
³ Actual results will depend on future market conditions

Breakeven Points

- Combining a basis swap with variable rate debt increases the breakeven rate significantly

	LIBOR	Federal Funds ¹	BMA ²	Annual Net Cash Flow ³
	4.25%	4.00%	2.60%	1,228,043
	4.75%	4.50%	2.93%	1,113,273
	5.25%	5.00%	3.25%	998,503
	5.75%	5.50%	3.58%	883,734
	6.25%	6.00%	3.90%	768,964
	6.75%	6.50%	4.23%	654,194
	7.25%	7.00%	4.55%	539,425
	7.75%	7.50%	4.88%	424,655
Breakeven of fixed-to-floating Swap	8.11%	7.86%	5.11%	341,668
	8.25%	8.00%	5.20%	309,885
	8.75%	8.50%	5.53%	195,116
	9.25%	9.00%	5.85%	80,346
Breakeven of fixed-to-floating swap with basis swap	9.60%	9.35%	6.08%	
	9.75%	9.50%	6.18%	(34,424)
	10.25%	10.00%	6.50%	(149,193)

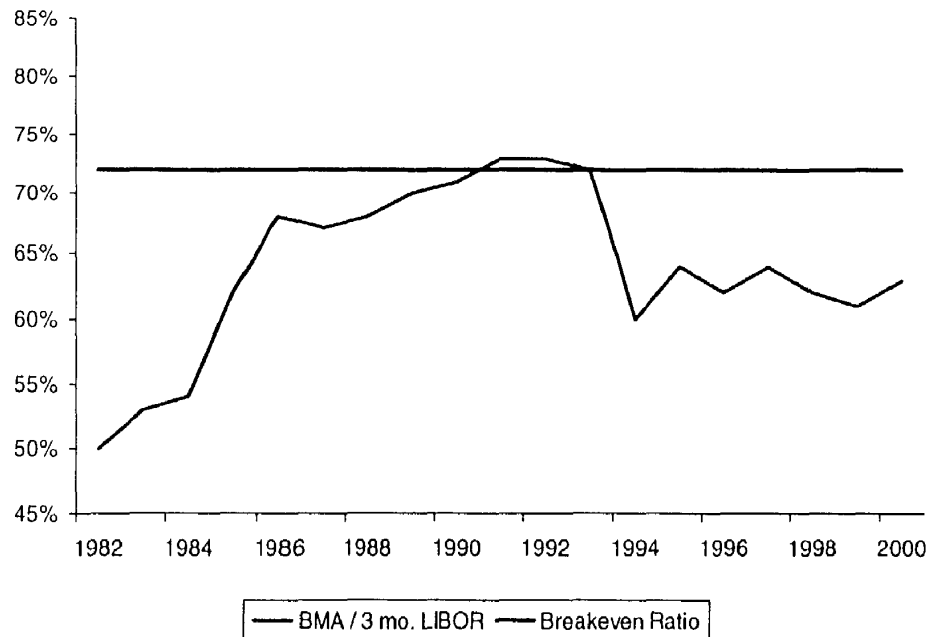
¹ Currently Fed Funds is at 5.50%.

² Assumes BMA trades at 65% of Federal Funds.

³ Assumes LIBOR = BMA / 62.1%, the five year average (BMA current reset is 3.18%, current quarterly average is 3.74%, current LIBOR equals 5.39%). On the Fixed-to-Floating swap Lodi receives fixed receiver rate of 5.11%, pays BMA; on the basis swap Lodi receives 71.0% of 3 month LIBOR (adjusted for actual / 360 daycount convention), pays BMA. \$42.0 million notional on both swaps. For illustration purposes only, actual results will depend on future market conditions.

The Breakeven BMA Vs. LIBOR Ratio

- The basis swap provides income so long as the BMA/LIBOR Ratio is less than the breakeven of 72.0%, (which is the fixed swap ratio (71.0%) adjusted for LIBOR's Actual/360 daycount convention)
- Since 1993, the BMA Index divided by the three month LIBOR Index has averaged 62.5%
- Since 1982, the ratio has averaged 62.8%¹

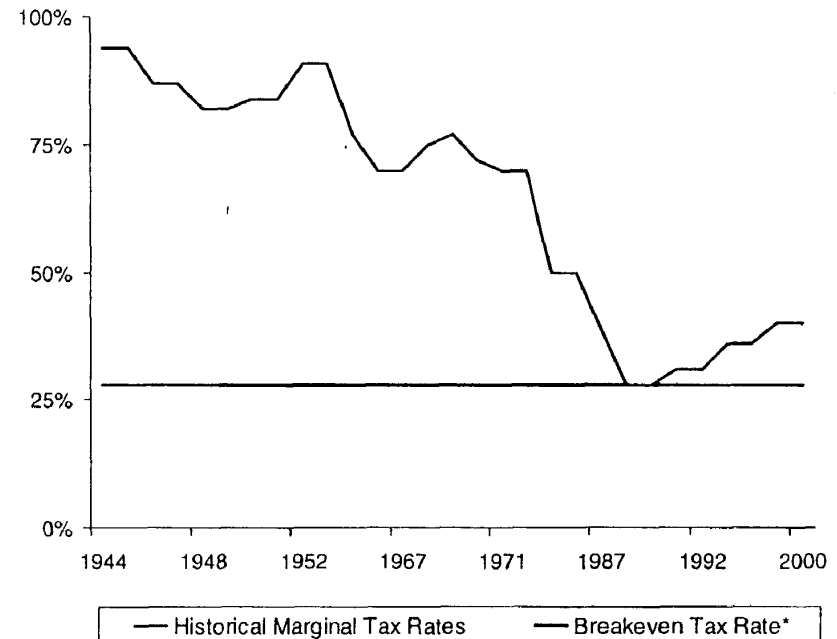


¹ Annual average of BMA / three month LIBOR (the BMA index was created in 1989; periods before 1989 are based on the J.J. Kenny index, a similar index of seven day tax-exempt floaters)

Tax Risk

- Tax risk is the potential for higher funding costs due to a change in the taxation of interest income
- **Lower** income tax rates would reduce the tax advantage of tax-exempt securities over taxable securities
 - Result: higher tax-exempt rates relative to taxable rates, lower basis swap receipts or higher basis swap payments
 - Worst case scenario: elimination of taxation of interest income as in certain Flat-Tax proposals, resulting in the BMA Index approximately equaling LIBOR
- **Higher** income tax rates would have the opposite effect: lower BMA/LIBOR ratio, greater basis swap income
- Actual exposure depends on
 - Timing of tax reform
 - Degree of change in tax rates
 - General interest rate level
 - Structure of financial instrument

TOP INCOME TAX RATES



* Equal to 1 minus Break Even Swap Ratio (72.0%) = 28.0%

Cash Flow Analysis - Marginal Tax Ratio Summary

\$42 MILLION BASIS SWAP PROGRAM Cash-Flow Impact of Changing Marginal Tax Rates (\$'000's)

Marginal Tax Rate	LIBOR ¹	BMA ²	Basis Swap Cashflow ³
50%	5.39%	2.70%	498
45%	5.39%	2.96%	385
39.6%	5.39%	3.26%	262
35%	5.39%	3.50%	158
30%	5.39%	3.77%	45
25%	5.39%	4.04%	-68
20%	5.39%	4.31%	-181

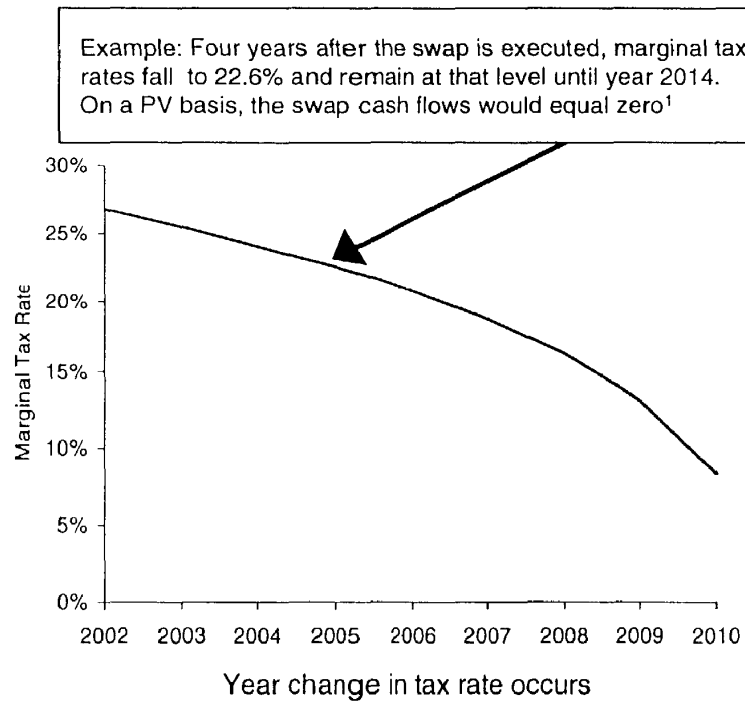
¹ Current 3 month LIBOR

² Assumes BMA is equal to LIBOR* (1-Marginal Tax Rate)

³ Assumes a \$42 million basis swap, where Lodi is paying BMA and receiving 71.0% of 3 month LIBOR; LIBOR adjusted for Actual / 360 day count
For illustration purposes only, actual results will depend on future market conditions

Breakeven Marginal Tax Rates with Bush's Tax Plan¹

- Our analysis indicates that based on President Bush's proposed tax rates, the break-even tax rate drops to below 19% in 2007, the year the President reaches his targeted goal (33% tax rate)



Year	Marginal Tax Rate								
2001	39.6%	39.6%	39.6%	39.6%	39.6%	39.6%	39.6%	39.6%	39.6%
2002	26.8%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
2003	26.8%	25.5%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
2004	26.8%	25.5%	24.1%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
2005	26.8%	25.5%	24.1%	22.6%	35.0%	35.0%	35.0%	35.0%	35.0%
2006	26.8%	25.5%	24.1%	22.6%	20.8%	34.0%	34.0%	34.0%	34.0%
2007	26.8%	25.5%	24.1%	22.6%	20.8%	18.8%	33.0%	33.0%	33.0%
2008	26.8%	25.5%	24.1%	22.6%	20.8%	18.8%	16.3%	33.0%	33.0%
2009	26.8%	25.5%	24.1%	22.6%	20.8%	18.8%	16.3%	13.0%	33.0%
2010	26.8%	25.5%	24.1%	22.6%	20.8%	18.8%	16.3%	13.0%	8.3%
2011 - 2014	26.8%	25.5%	24.1%	22.6%	20.8%	18.8%	16.3%	13.0%	8.3%

¹ Lodi receives receives 71.0% of 3 month LIBOR (adjusted for Actual / 360) (currently 5.39%) and pays BMA (BMA= LIBOR * (1-marginal tax rate)), present valued at 5.11%.

For illustration purposes only, actual results will depend on future market conditions

Decision Points - Basis Swap

Benefits

- Provides interest cost savings under current market conditions
- • Partial hedge against higher interest rates relative to fixed-to-floating swaps
- Hedges mark-to-market volatility of fixed-to-floating swaps
- Benefits from any increase in the marginal tax rates
- Benefits from changes in tax/securities rules that increase demand or reduce supply of tax-exempt floaters (e.g. de minimus, AMT)

Considerations

- Added exposure to any decrease in marginal tax rates
- Exposure to changes in tax/securities rules (e.g. de minimus, AMT) that reduce demand or increase supply of tax-exempt floaters
- Consult auditors regarding accounting treatment
- Potential cost or benefit from early termination

3 SWAP REVERSAL/TERMINATION ANALYSIS

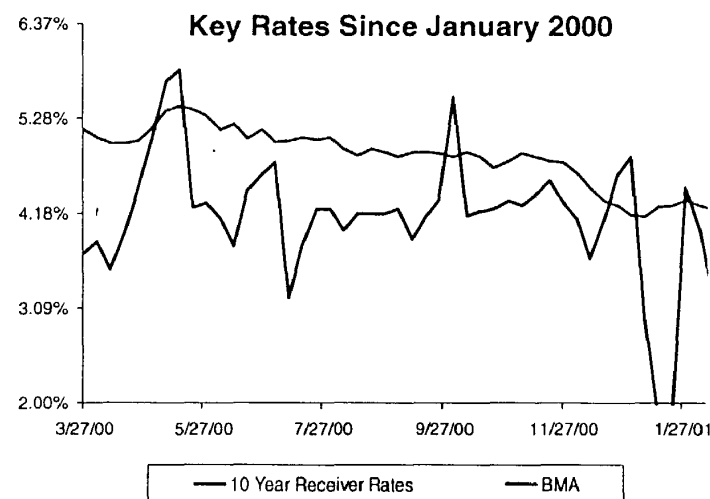
Swap Reversal Analysis

- By reversing or terminating the swap now, Lodi can lock in gains

Scenario	Upfront Payment to Lodi ⁴
Full Termination	\$ 1,535,000
Reversal through 3/03	\$ 1,229,000
Reversal through 3/04	\$ 1,550,000

- However, by reversing or terminating the swap now, Lodi could potentially be giving up swap income ("carry")

Assumed Annualized Carry for Swap ²			Budgeted Annual Carry ³
BMA @ 2.0%	BMA @ 3.0%	BMA @ 4.0%	
\$ 1,306,200	\$ 886,200	\$ 466,200	\$ 250,000



<u>3/29/2000 to Date</u>
Average BMA = 4.14%
Current BMA Reset= 3.18%
5 Yr. Average= 3.58%
10 Yr. Average= 3.41%

¹ Values do not include accrued interest

² Annualized Cashflow produced by Fixed-to-Floating swap assuming listed BMA

³ Obtained from Lodi

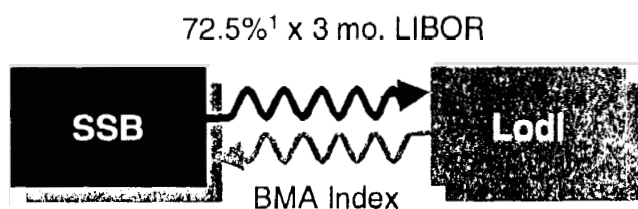
⁴ Calculated on February 14, 2001. Reversal/Termination analysis has been prepared for informational purposes only.

The (Loss)/Gain figures provided are ESTIMATES, and subject to prevailing market conditions. No representation is made that the (Payments)/Receipts described herein would be the result of the reversal/termination of the Swap Transaction. For illustration only, actual results will depend on future variable rates.

4 SWAP REVERSAL WITH FORWARD BASIS SWAP

Combining a Reversal with a Basis Swap: Forward Basis Swap

- Under a forward basis swap, Lodi would start receiving a short-term **taxable** rate in March 2004, and would start paying a short-term **tax-exempt** rate in March 2004



- The forward basis swap gives Lodi a higher percentage of LIBOR versus a current starting basis swap, due to:
 - The steepness of the tax-exempt swap yield curve
 - The flatness of the Taxable swap yield curve
- Lodi gives up any cashflows from the basis swap for the first three years

Annualized Cashflows				
LIBOR	BMA ²	Current Basis Swap ³	Forward Basis Swap ⁴	Percentage Increase
2.39%	1.48%	99	115	13.33%
3.39%	2.11%	141	162	13.33%
4.39%	2.73%	182	210	13.33%
5.39%	3.35%	224	258	13.33%
6.39%	3.97%	265	306	13.33%
7.39%	4.59%	307	354	13.33%
8.39%	5.21%	348	402	13.33%

Dollar amounts in '000s per \$42 million par / notional, cashflows in 2004
For illustration purposes only

¹ Current ratio for a forward basis swap with a 10 year average life starting in three years, final maturity of 9/29/14

² Assumes BMA=62.1% of LIBOR, the five year ratio average. Adjusted for daycount convention the five year average is BMA = 61.3% of LIBOR.

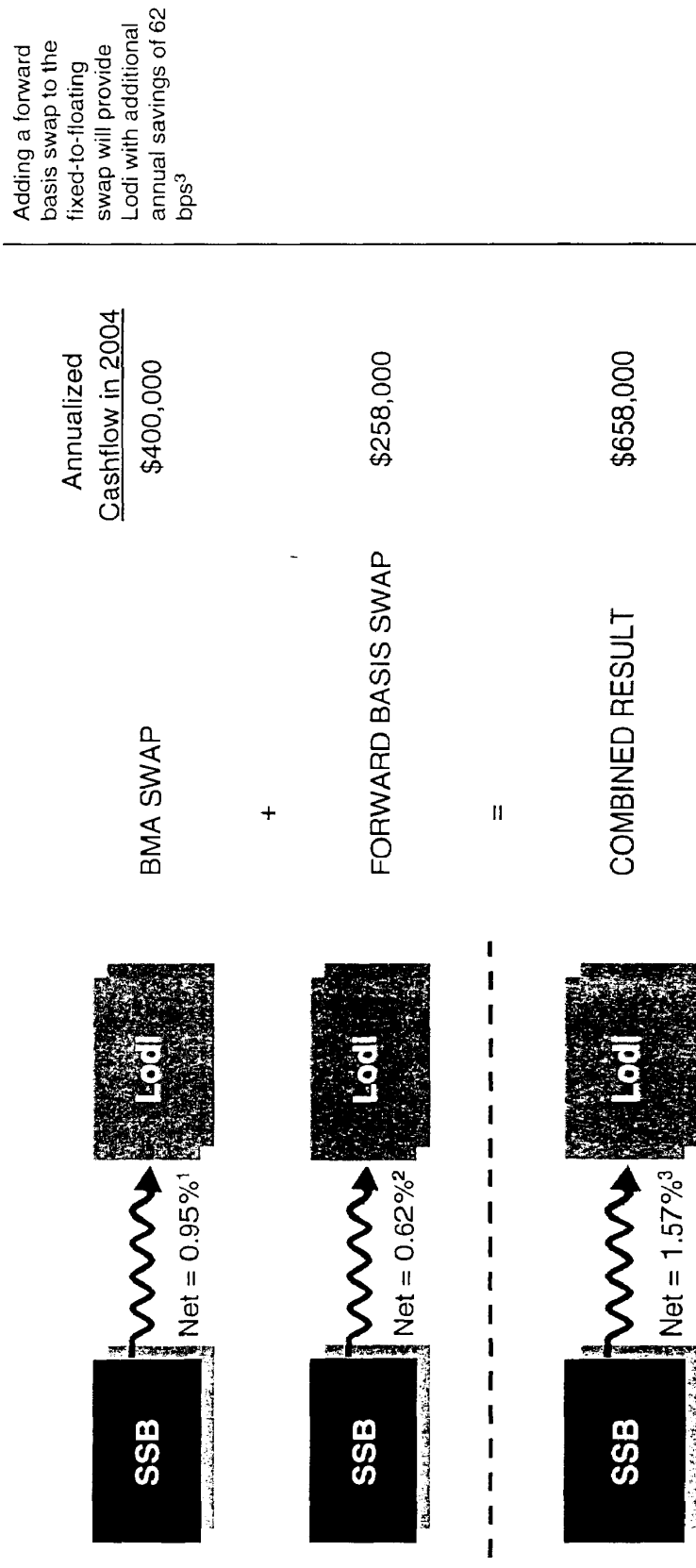
³ Lodi receives 71.0% of 3 month LIBOR (adjusted for Actual / 360) and pays BMA (BMA=62.1% of 3 mo. LIBOR, the 5 year ratio average)

⁴ Lodi receives 72.5% of 3 month LIBOR (adjusted for Actual / 360) and pays BMA (BMA=62.1% of 3 mo. LIBOR, the 5 year ratio average)

⁵ Includes adjustment for LIBOR Actual/360 day count convention, and BMA= 62.1% LIBOR, the 5 year ratio average.

For illustration purposes only; actual results will depend on future market conditions

Forward Basis Swap Enhances Fixed-to-Floating Swap in March 2004



¹ Lodi is receiving fixed receiver rate of 5.11%, paying BMA (assumes: 4.15217%, average BMA since execution)

² Based upon Forward BMA and LIBOR swap markets as of 2/12/01. Assumes BMA=62.1% of LIBOR, the five year ratio average. Adjusted for daycount convention.

³ Actual results will depend on future market conditions

Cash Flow Analysis - Marginal Tax Ratio Summary

\$42 MILLION BASIS SWAP PROGRAM

Cash-Flow Impact (2004) of Changing Marginal Tax Rates
(\$000's)

Marginal Tax Rate	LIBOR ¹	BMA ²	Current Basis Swap Cashflow ³	Forward Basis Swap Cashflow ⁴
50%	5.39%	2.70%	498	532
45%	5.39%	2.96%	385	419
39.6%	5.39%	3.26%	262	297
35%	5.39%	3.50%	158	193
30%	5.39%	3.77%	45	79
25%	5.39%	4.04%	-68	-34
20%	5.39%	4.31%	-181	-147

¹ Current 3 month LIBOR

² Assumes BMA is equal to LIBOR* (1-Marginal Tax Rate)

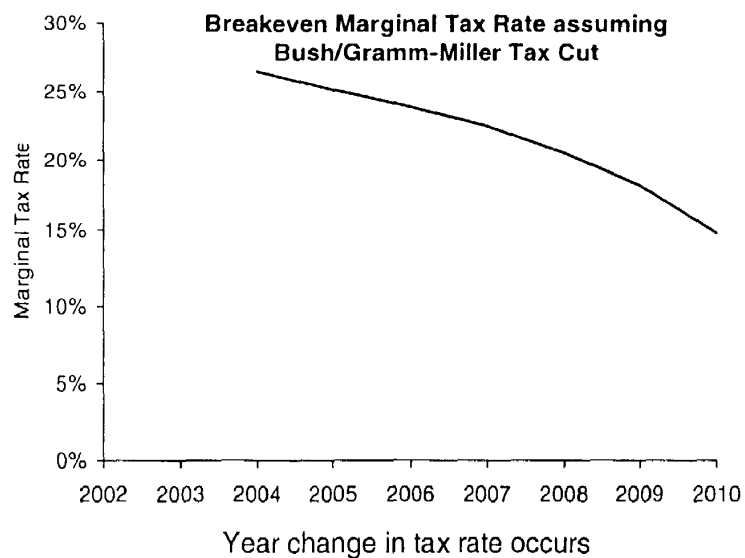
³ Assumes a \$42 million basis swap (cashflows in 2004), where Lodi will pay BMA and receive 71.0% of 3 month LIBOR; LIBOR adjusted for Actual / 360 day count

⁴ Assumes a \$42 million forward basis swap starting in March 2004, where Lodi will pay BMA and receive 72.5% of 3 month LIBOR; LIBOR adjusted for Actual / 360 day count

For illustration purposes only, actual results will depend on future market conditions

Breakeven Marginal Tax Rates with Bush's Tax Plan¹

- Our analysis indicates that based on President Bush's proposed tax rates, phased in as per the Gramm-Miller bill, then the break-even tax rate drops to below 24% in 2006, the year the President reaches his targeted goal (33% tax rate)



Year	Marginal Tax Rate							
2001	39.6%	39.6%	39.6%	39.6%	39.6%	39.6%	39.6%	39.6%
2002	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
2003	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
2004	26.5%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
2005	26.5%	25.2%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
2006	26.5%	25.2%	23.9%	33.0%	33.0%	33.0%	33.0%	33.0%
2007	26.5%	25.2%	23.9%	22.5%	33.0%	33.0%	33.0%	33.0%
2008	26.5%	25.2%	23.9%	22.5%	20.6%	33.0%	33.0%	33.0%
2009	26.5%	25.2%	23.9%	22.5%	20.6%	18.2%	33.0%	33.0%
2010	26.5%	25.2%	23.9%	22.5%	20.6%	18.2%	14.7%	14.7%
2011 - 2014	26.5%	25.2%	23.9%	22.5%	20.6%	18.2%	14.7%	14.7%

¹ In March 2004, Lodi receives receives 72.5% of 3 month LIBOR (adjusted for Actual / 360) (currently 5.39%) and pays BMA (BMA= LIBOR * (1- marginal tax rate), present valued at 5.11%.
For illustration purposes only, actual results will depend on future market conditions

The prices and levels contained herein are indicative only and do not represent bids or offers. These indications are provided solely for your consideration and information, are subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. This is not a complete analysis of every material fact representing any product. Statements of fact have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without notice. Salomon Smith Barney Inc. and/or its affiliates (the "Firm") may make a market in these instruments for its customers and for its own account. Accordingly, the Firm may have a position in any such instrument at any time.

H-5

Salomon Brothers Holding Company Inc.
Seven World Trade Center Telephone: 212-615-8606
New York, NY 10048 Facsimile: 212-615-8597

OH&S Draft
2/20/01

February _____, 2001

Mr. H. Dixon Flynn
City Manager
City of Lodi
221 West Pine Street
Lodi, CA 95241

Counterparty Ref:

AMENDMENT NUMBER ONE TO TRANSACTION

The purpose of this letter agreement (the "Amendment") is to set forth certain amendments to the Transaction (the "Original Transaction") entered into between City of Lodi ("Counterparty") and Salomon Brothers Holding Company Inc ("Salomon") pursuant to the ISDA Master Agreement (the "Master Agreement"), the Schedule to the ISDA Master Agreement (the "Schedule"), the ISDA Credit Support Annex to the Schedule to the ISDA Master Agreement (the "Credit Support Annex") and the Confirmation (the "Original Confirmation"), each dated as of September 29, 1999 and each between Salomon Brothers Holding Company Inc and the City of Lodi.

1. The definitions and provisions contained in the 1991 ISDA Definitions, as amended by the 1998 Supplement to the 1991 ISDA Definitions and the 1992 ISDA Municipal Counterparty Definitions (each, as published by the International Swaps and Derivatives Association, Inc.) (the "Definitions") are incorporated into this Amendment.
2. This Amendment supplements, forms a part of, and is subject to, the ISDA Master Agreement as amended and supplemented by the Schedule, the Credit Support Annex and the Original Confirmation. All provisions contained in the Master Agreement, as so amended and supplemented, govern this Amendment except as expressly provided herein. In the event of any inconsistency between this Amendment and the Definitions or the Master Agreement, this Amendment will govern.
3. THIS AMENDMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO CHOICE OF LAW DOCTRINE, PROVIDED THAT THIS PROVISION WILL BE SUPERSEDED BY ANY CHOICE OF LAW PROVISION CONTAINED IN THE MASTER AGREEMENT.

Salomon Brothers Holding Company Inc.
Seven World Trade Center Telephone: 212-615-8606
New York, NY 10048 Facsimile: 212-615-8597

February ____, 2001

4. The following terms of the Original Transaction as set forth in the Original Confirmation are hereby modified to read as follows:

Fixed Rate Payer Period End Dates: Each day that is three Business Days preceding each January 15 and July 15 commencing on the day that is three Business Days preceding July 15, 2000 through and including the day that is three Business Days preceding September 29, 2014 other than [July 15, 2001, January 1, 2002, July 15, 2002, January 15, 2003, July 15, 2003 and January 15, 2004]

Fixed Rate Payer Payment Dates: Each day that is three Business Days preceding each January 15 and July 15 commencing on the day that is three Business Days preceding July 15, 2000 through and including the day that is three Business Days preceding September 29, 2014 other than [July 15, 2001, January 1, 2002, July 15, 2002, January 15, 2003, July 15, 2003 and January 15, 2004]

Floating Rate Payer Period End Dates: Each day that is three Business Days preceding each January 15 and July 15 commencing on the day that is three Business Days preceding July 15, 2000 through and including the day that is three Business Days preceding September 29, 2014 other than [July 15, 2001, January 1, 2002, July 15, 2002, January 15, 2003, July 15, 2003 and January 15, 2004]

Floating Rate Payer Payment Dates: Each day that is three Business Days preceding each January 15 and July 15 commencing on the day that is three Business Days preceding July 15, 2000 through and including the day that is three Business Days preceding September 29, 2014 other than [July 15, 2001, January 1, 2002, July 15, 2002, January 15, 2003, July 15, 2003 and January 15, 2004]

Salomon Brothers Holding Company Inc.
Seven World Trade Center Telephone: 212-615-8606
New York, NY 10048 Facsimile: 212-615-8597

February ____, 2001

5. In consideration of the amendment to the Original Transaction made by Section 4 hereof, Salomon agrees to pay Counterparty on the date hereof the sum of _____ Dollars (\$_____).

6. Save and except as modified by Section 4 of this Amendment, the Original Transaction, as confirmed by the Original Confirmation, shall continue in full force and effect as set forth in the Original Confirmation.

Please confirm that the foregoing correctly sets forth the terms of our agreement with respect to the amendment of the Original Transaction by executing the copy of this Amendment enclosed for that purpose and returning it to us.

Very truly yours,

Accepted and confirmed
as of February ____, 2001:

CITY OF LODI

By: _____
Authorized Signatory
Name:

Mr. H. Dixon Flynn
Page 3

RESOLUTION NO. 2001-52

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI
AUTHORIZING AN AMENDMENT TO AN EXISTING TRANSACTION,
A SECOND TRANSACTION AND AMENDMENTS TO TRANSACTIONS
AND NEW TRANSACTIONS, IN EACH CASE UNDER A MASTER SWAP
AGREEMENT AND DIRECTING CERTAIN ACTIONS RELATING THERETO**

WHEREAS, the City of Lodi, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), owns and operates a municipal electric utility (the "Electric System") to provide the inhabitants of the City with electricity; and

WHEREAS, to finance and refinance the costs of certain additions, betterments and improvements to the City's Electric System, including the acquisition and construction of certain transmission and distribution facilities for the Electric System, the City has entered into an Installment Purchase Contract (the "Installment Purchase Contract"), dated as of August 1, 1999 between the City and the Lodi Public Improvement Corporation (the "Corporation"), under which the City is obligated to make installment payments (the "Payments") to the Corporation for the purchase of certain improvements to the Electric System as provided in the Installment Purchase Contract; and

WHEREAS, pursuant to a Trust Agreement (the "Trust Agreement") dated as of August 1, 1999 between the Corporation and BNY Western Trust Company, as Trustee, there have been executed and delivered Electric System Revenue Certificates of Participation, 1999 Series A Current Interest Certificates and Electric System Revenue Certificates of Participation, 1999 Series B Capital Appreciation Certificates (collectively, the "Certificates"), evidencing and representing proportionate interests of the owners thereof in the Payments to be made by the City; and

WHEREAS, the City's obligation to make Payments under the Installment Purchase Contract is a special obligation payable solely from Net Revenues (as defined in the Installment Purchase Contract) of the Electric System; and

WHEREAS, in order to provide a mechanism for economically converting the fixed interest rate applicable to the Certificates to a variable rate for a specified term, the City has entered into an interest rate swap agreement (the "Original Transaction") with Salomon Brothers Holding Company Inc (the "Counterparty"); and

WHEREAS, the terms and conditions of the Original Transaction are set forth in the ISDA Master Agreement, as amended and supplemented by the U.S. Municipal Counterparty Schedule to the Master Agreement and the ISDA Credit Support Annex to the Schedule to the ISDA Master Agreement (the "Credit Support Annex"), each dated as of September 29, 1999 and each between the City and the Counterparty (such ISDA Master Agreement, as so amended

and supplemented, being referred to herein as the "Swap Agreement"), and the Confirmation (the "Original Confirmation"), dated September 29, 1999 between the City and the Counterparty; and

WHEREAS, the City proposes to amend the terms of the Original Transaction by modifying the timing and amount of payments thereunder for a specified period as set forth in the Amendment Number One To Transaction (such Amendment Number One to Transaction in the form submitted to this meeting, as the same may be modified and completed in accordance with this Resolution, being referred to herein as the "Amendment"); and

WHEREAS, in order to provide a mechanism for reducing the exposure to changes in the variable interest rate payable by the City under the Original Transaction (and thereby reducing the interest costs to the City with respect to the Certificates), the City proposes to enter into a second Transaction under the Swap Agreement (the "Second Transaction"); and

WHEREAS, the specific terms of the Second Transaction shall be contained in a confirmation (the "Second Transaction Confirmation") to be delivered on the date the final terms of the Second Transaction are agreed upon by the parties; and

WHEREAS, the City's obligations under the Second Transaction may be secured by security arrangements described in the Credit Support Annex or by an insurance policy; and

WHEREAS, the City's obligations under the Original Transaction are, and the City's obligations under the Second Transaction will be, special obligations payable solely from Net Revenues of the Electric System on a parity with the City's obligations to make the Payments under the Installment Purchase Contract; and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LODI, AS FOLLOWS:

Section 1. The Amendment to the Original Transaction, in the form submitted to this meeting and on file with the City Clerk, is hereby approved, and the City Manager and the Finance Director, each acting singly, are hereby authorized to execute the Amendment in substantially said form with such additions, insertions and changes as are not inconsistent with this Resolution as the officer executing such document may approve, with such approval to be conclusively evidenced by the execution and delivery thereof. The payment to be made by the Counterparty to the City pursuant to the Amendment shall not be less than One Million Dollars and the Amendment shall not suspend the exchange of payments pursuant to the Original Transaction for more than five years.

Section 2. The Second Transaction with the Counterparty whereby the City agrees to pay the Counterparty a variable rate of interest on a notional amount based on the BMA

Municipal Index and the Counterparty agrees to pay the City a variable rate of interest on the same notional amount based on Three Month LIBOR is hereby approved and the City Manager and the Finance Director, each acting singly, are hereby authorized to enter into the Second Transaction and accept and execute the Second Transaction Confirmation setting forth the terms of the Second Transaction; provided, however, that the following limitations shall be applicable to the Second Transaction Confirmation and Second Transaction: (i) the term of the Second Transaction shall not exceed the final maturity of the Certificates, (ii) the aggregate notional amount of the Second Transaction shall not exceed \$42,000,000, (iii) the rate payable by the City at any time under the Second Transaction shall not exceed the then effective BMA Municipal Index (as published by Municipal Market Data) or any successor index under the Swap Agreement plus 100 basis points, (iv) the variable rate to be received by the City under the Second Transaction shall not be less than Fifty Percent (50%) of the Three Month LIBOR rate or any successor index under the Swap Agreement, (v) all payment obligations of the City under the Second Transaction Confirmation and the Second Transaction shall be special obligations payable solely from Net Revenues of the Electric System on a parity with the City's obligations to make the Payments under the Original Transaction and the Installment Purchase Contract, (vi) if determined by the officer executing the Second Transaction Confirmation to be in the best interests of the City, the Second Transaction Confirmation may contain a limit on the rate payable by the City under the Second Transaction (which determination shall be conclusively evidenced by the execution of the Second Transaction Confirmation containing such limitation).

Section 3. The securing of the City's obligations under the Second Transaction either through the use of an insurance policy or the Credit Support Annex is hereby authorized and approved. The City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized to determine whether to utilize an insurance policy or the Credit Support Annex to secure the City's obligations under the Second Transaction, which determination shall be made on the basis of which security arrangement is in the best interests of the City and which determination shall be conclusively evidenced by the execution and delivery of the Credit Support Annex or the delivery of an insurance policy, as applicable.

Section 4. Subject to the satisfaction of the conditions contained in Section 5922 or Section 53534 of the California Government Code, or any other applicable statutory authority authorizing the City to enter into Transactions under the Swap Agreement, the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized to execute amendments to any Transaction, or to enter into a new Transaction satisfying the parameters of Section 2 of this Resolution or Section 2 of the resolution of this City Council authorizing the Original Transaction, upon the determination by the officer of the City executing such amendment or the Confirmation setting forth the terms of such Transaction that: (i) such amendment or Transaction, as applicable, is designed to reduce the amount or duration of payment, interest rate, spread or similar risk with respect to the Certificates or result in a lower cost of borrowing in connection with the Certificates when used in combination with the Certificates; and (ii) the net amount payable by the City under all Transactions under the Swap Agreement from the effective date of such amendment or Transaction, as applicable, to and including the next succeeding January 15 or July 15 (whichever first occurs), calculated as provided in the next sentence is less than the amount payable by the City if such amendment or Transaction is not entered into by the City. The amount payable by the City and the Counterparty under a Transaction shall be determined using any fixed rate payable under the

Transaction and, with respect to any variable payable under the Transactions, using the average of the applicable variable rate for the three months immediately preceding the month in which such amendment becomes effective or the date of the Confirmation for such Transaction, as applicable. The determinations required by the immediately preceding sentence with respect to any amendment to a Transaction or a new Transaction shall be conclusively evidenced by such officer's execution of such amendment or the Confirmation relating to such Transaction.

Section 5. The City hereby finds and determines that the Amendment, the Second Transaction authorized hereby and the program of contracts authorized by Section 4 of this Resolution are each designed to reduce the amount or duration of interest rate risk and the amount of interest cost to the City with respect to the Certificates.

Section 6. The City Manager, the Finance Director, the City Attorney and the City Clerk and all other appropriate officials and employees of the City are hereby authorized and directed to execute such agreements, documents and certificates, and to take such actions, as may be necessary or convenient to carry out the City's obligations under and to effect the purposes of the Amendment, the Second Transaction, the Second Transaction Confirmation, this Resolution and the transactions herein authorized.

Section 7. Capitalized terms used in this Resolution and not otherwise defined shall have the meanings given such terms pursuant to the Swap Agreement.

Section 8. This Resolution shall take effect immediately upon its passage.

Date: February 21, 2001

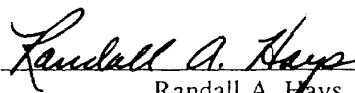
I hereby certify that Resolution 2001-52 was passed and adopted by the City Council of the City of Lodi in a regular meeting held February 21, 2001 by the following votes:

AYES:	Council Members -	Hitchcock, Howard, Land, Pennino and Mayor Nakanishi
NOES:	Council Members -	None
ABSENT:	Council Members -	None



Susan J. Blackston
City Clerk

Approved As to Form:



Randall A. Hays
City Attorney